

STATEMENT OF
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U.S. GENERAL SERVICES ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT,
PUBLIC BUILDINGS, AND EMERGENCY MANAGEMENT
COMMITTEE ON TRANSPORTATION AND
INFRASTRUCTURE
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Good morning, Mr. Chairman and Members of the Subcommittee. My name is F. Joseph Moravec and I am the Commissioner of the Public Buildings Service (PBS), U.S. General Services Administration (GSA). Thank you for inviting me here today to share GSA's perspective on the Federal Judiciary's request for a permanent annual rental exemption, an exemption that would excuse \$483 million in the first year alone.

As this Committee knows, GSA manages a diverse portfolio of real estate for the Federal government – over 340 million square feet of space in office buildings, courthouses, border stations, warehouses, etc. We serve nearly 60 agencies (over 400 bureaus), the U.S. Courts, and Congress. We house over one million Federal employees. We see ourselves as mission enablers, providing the functional space needed by Federal agencies to accomplish their missions.

While we are committed to assisting the Judiciary in addressing their fiscal concerns, we do not support granting the rent exemption they have requested. We strongly oppose any action that would undermine the Federal Buildings Fund (FBF) and the rent / user charge system that replenishes it for the benefit of all of

our customer agencies. This remarkably effective piece of public policy has stood the test of time and served the Federal Government well for over 30 years. It has provided a reliable and consistent cost of occupancy to federal tenants and a sustained source of funding for the operations and maintenance of the GSA portfolio of owned and leased properties. It provides an honest accounting of the cost of occupancy in Federal budgets, an effective incentive for Federal agencies to hold down the costs of the space they request, and good value for Federal agencies and the taxpayers. It is modeled on the best practices of the real estate industry.

In the Public Buildings Amendments of 1972, Congress established the Federal Buildings Fund to:

1. Create a consistent source of funding for the construction, operations, maintenance, repair, alteration, and modernization of Federal buildings; and,
2. Require agencies to budget and pay for their space requirements just as they do for personnel, travel, and administrative costs. In report language accompanying the

legislation, Congress noted that making agencies accountable for the space they use should result in more efficient space utilization by agencies.

The rent / user charge is good public policy that promotes accountability for the amount and quality of space they use. Other agencies with whom we've worked to address budget constraints are making decisions to reduce their space costs.

Consistent with the original intent of Congress that the Federal Buildings Fund serve long-term capital needs as well as annual operating expenses, GSA has spent an average of 20 percent of its obligations on capital projects (construction and major repairs and alterations) over the last ten fiscal years. Moreover, Congress has had to provide in appropriations an average of only 4.7 percent of GSA's total obligations during this period.

The Federal Judiciary is a major user of GSA-managed workspace. Measured in terms of square feet of space provided, the Judiciary is our largest customer (2159 courtrooms in 39 million square feet in 333 owned and 128 leased

buildings). It has experienced the most growth of any customer we serve. The Judiciary has increased the amount of space they occupy by 310 percent (an average of 1 million square feet per year) over the last 30 years.

In 1994, the Judiciary and GSA undertook a significantly expanded courthouse construction program to build 160 courthouses. The Judiciary took responsibility for the construction design guide standards, and GSA created a Courthouse Management Group to manage this ambitious construction program. Over the last 10 years, GSA delivered 46 new courthouses or annexes (17 million square feet) at a cost of \$3.4 billion from the Federal Buildings Fund. Going forward, the Judiciary has asked for an additional 34 projects (10 million square feet), at a cost of \$1.8 billion. Eleven of them are under construction, 3 are funded for construction, and 11 are in the design stage.

Measured in terms of user charges for space occupancy (rent revenue), the Judiciary is our second largest customer (15 percent of projected FY 2005 revenue collected). Not only is the Judiciary occupying more space, but it is high quality, functional space with befitting public areas, modern technological functionality, and enhanced security features. We are proud of the courthouses we have built and are building for the Judiciary. They are built with enduring

materials, to properly represent the role of the Federal government in our nation's communities, and have won many awards for their remarkable designs. More and better quality space has translated into more rent.

To pay for these buildings and to modernize existing courthouses, GSA is required by law to charge a user charge that approximates commercial fair market rent. Congress intended this user charge to provide the necessary funds to construct, operate, maintain, and reinvest in Federal buildings to ensure their continuing functionality. A rent payment to GSA is not a mortgage payment. In return for the rent we charge, GSA bears full responsibility for the total life-cycle operation as well as the risks and costs associated with property ownership including operation, maintenance, and capital reinvestment. For the Judiciary, the Federal Buildings Fund has supported almost \$1.7 billion in prospectus-level modernizations for courthouses in the last 20 years.

GSA calculates a charge for space occupancy that approximates commercially equivalent rent based on locality-based, building-by-building appraisals.

- Rent in leased space is based on recovery of actual lease contract costs, related services (e.g., utilities, if applicable), plus transaction costs.

- Rent in Federally-owned buildings is comprised of three main components: a shell rent (or base rate to reflect base building costs), a component to cover operating expenses, and a component to amortize the cost of tenant improvements. The shell rate and operating expenses rate reflect the prevailing market rates. The decisions of tenant agencies drive their tenant improvement rent costs. Once paid for, the amortized tenant improvement costs drop off the rent bill and the agency pays only shell and operating costs, as is the case for many of the rural courthouses.
- As a result of the transfer of the Federal Protective Service from GSA, in FY 2005 the Department of Homeland Security started providing and billing for basic and building-specific operating security (primarily guard service). GSA continues to bill for building-specific capital investments – building features such as progressive collapse construction and hardened building glazing and skin for blast protection.

So that tenant agencies can incorporate space costs in formulating their budgets, GSA provides a projection of their rent costs two budget cycles in advance. GSA also guarantees not to bill in excess of the rent estimate, except for any new space or tenant improvements requested by the agencies.

A year ago we recommended options the Judiciary could explore to reduce space costs, such options as:

- Reducing the number of underutilized courtrooms and courthouses;
- Releasing space;
- Reducing the scope of construction and lease projects;
- Reducing the level of finishes;
- Refining their construction design guide standards;
- Extending amortization of tenant improvements;
- Reducing tenant improvement costs in expiring space assignments; and,
- Renegotiating leases where market rates have dropped significantly.

The collective value of the last three options alone was nearly \$23 million in potential savings. We think these suggestions, which we've used to help other agencies, are significant and could be of great assistance to the Judiciary.

In addition to exploring options to help the Judiciary contain rent costs, we have undertaken an effort to validate all of the Judiciary's rent bills. With over 2,700 of these bills, it's reasonable to expect that there will be some errors and, in fact, we

have already found some. We will quickly correct them, whether they are to our credit or the Judiciary's. We are also reviewing our appraisal practices and our building measurement policies and practices to identify opportunities for improvement.

For GSA to perform its mission of delivering space and services to the Judiciary and all of its other Federal customers, rent must be paid in full into the Federal Buildings Fund. The effectiveness of the Fund as a self-financing mechanism, and as a cost-containment incentive, depends on full participation by all tenant agencies in paying for what they consume. Otherwise, other federal agencies bear the cost (in the form of foregone repairs and modernization projects) for those that do not pay the full charge for the space they use. With inadequate funding for repair and modernization projects, buildings deteriorate, tenant agencies can't do their work as well as they should be able to, and the taxpayers' investment loses value.

Fundamentally, this comes down to sound real property asset management. Capital reinvestment is one of the largest challenges for the Federal government. GSA faces growing reinvestment needs in an aging inventory (average building

age 46 years; average age of buildings occupied by the Judiciary 52.5 years). Granting a rent exemption of the magnitude sought by the Judiciary would essentially bankrupt the Federal Buildings Fund system. A short-term budget condition experienced by one tenant agency should not be a reason to undermine successful operation of a revolving fund that uses space occupancy user charges to fund operations and reinvestment needs of Federal facilities for all of our tenant agencies. This system has served the Federal government well for over 30 years. We urge the Committee to keep the Federal Buildings Fund system intact, keep our reinvestment efforts on track, and fully preserve the accountabilities and safeguards that the Federal Buildings Fund affords.

Mr. Chairman, that concludes my prepared statement, and I will be pleased to answer any questions that you or Members of the Subcommittee may have about the Federal Buildings Fund, our space pricing program, or any other aspects of the public buildings program.